

The Future of Retail Banking Report

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Chapter 6:

The Future Customer Relationship

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The Future Customer Relationship

The customer relationship is up for grabs. Regulators are determined to give customers a better deal by forcing competition and innovation on an industry that for decades has been able to coast, relying on customer inertia and high barriers to entry to sustain market share. As this comes to an end with PSD2 and open banking initiatives, regulators will prise open the big retail banks' grip and give new entrants the tools to woo disaffected customers.

Yet even before PSD2 and the Open Banking agenda hit, customers have been quietly reshaping how they interact with their financial services providers. Limited uptake of the Current Account Switching Service shouldn't be mistaken for loyalty to existing banking providers: not only are more than half already using products or services from FinTech firms but only 16 per cent of customers say they are likely to purchase another product from their bank⁶¹.

Interactions with Fintech are giving customers a taste for new ways of managing their finances: they are being encouraged to think about transparency, fairness and easier budgeting as integral to the banking experience – be it “safe to spend” alerts, AI-powered analysis of spending habits or real-time account data so customers don't drift into overdraft or accrue charges. This is a new type of relationship – and it's revolutionising how consumers think about banking. Untainted by past mis-selling scandals, new entrants have been careful to position themselves as trusted partners offering simply-priced products and smart tools that put customers in control. This is in sharp contrast to traditional banks that not only penalise customers for their mistakes but profit from them: after all, analysis shows overdraft fees account for roughly a third of bank revenues per current account⁶².

Customers now know there's a better way to manage their money and, even before regulation intervened, they were using the digital revolution to take back control. This trend will only accelerate once PSD2 and open banking initiatives bite.

Reinventing the bank: time to step up

Customer empowerment will take another leap forward as services emerge that allow them to manage their growing portfolio of financial service providers in a single portal. This will give customers increased control, better visibility of costs and benefits, and facilitate easy switching to get the best deal. And why stop at banking? Imagine the convenience of being able to access all your personal affairs, from utility bills to health records, from retail loyalty cards to travel cards, in a single portal?



Our respondents expect the impact of these developments to be felt quickly in banking. Over half (56 per cent) expect online lifestyle portals through which consumers are able to manage every aspect of their lives to become mainstream for the delivery of banking services within three years and 86 per cent expect this to happen within five years.

These lifestyle portals will reinvent banking as we know it. Rather than accepting disintermediation and a slide towards obsolescence in a post-PSD2 world, banks should welcome this opportunity to get closer to every aspect of their customers' lives. Instead of being pulled in at the point of transaction and stepping back the moment the banking part of a transaction completes, banks should step forward with additional services and support that add real value to the customer.

When a customer moves house, for example, they don't just need a mortgage: they need legal services, movers, cleaning services, utility connections, insurance, change-of-address alerts... and more. Bundling these services into one user-friendly experience may sound like a radical step: many will fear a dilution of core banking services that risks the bank's reputation. Yet we no longer live in a world where banking services require decades of know-how and customer data: technology has reduced what were once core-banking functions to mere utility services the front-end of which can be delivered by any start-up with an open API and a cognitive-computing platform.

Besides, it's clear that such industry-centric concerns don't trouble the digital trailblazers. Amazon, for example, didn't stop at flogging books but went on to confound rivals with highly successful moves into cloud services, logistics, media and entertainment, consumer electronics and even bricks-and-mortar retailing and lending. Alibaba is not just a vast e-commerce company but also offerings asset management, lending and payments, along with B2B and ride-hailing services. By blurring traditional

industry boundaries, digital innovators can insert themselves into multiple customer journeys, making them privy to vast amounts of behavioural and financial data, which they are remarkably adept at converting into compelling customer propositions.

Social media giants in Asia are already showing just how potent this threat is. Chinese technology giant Tencent has developed its WeChat platform, which boasts 800 million daily users, most in China, to act as a single retail, lifestyle and banking ecosystem. WeChat enables users to send messages, make payments, invest, order taxis, buy bus tickets and more, from a single integrated platform that handles roughly 1m transactions per minute. It has already entered Europe, offering its e-commerce platform for European companies to sell goods in China and WeChatPay, which targets Chinese tourists in the region. This is digital on steroids – and it's the future.

83% agree that banks have an opportunity to help customers manage their lives, not just their finances, better

It's time for banks to realise that the future is not about banking; it's about the customer relationship, and that means being there for the customer every step of the way. The good news is our research shows the industry is alive to this fundamental shift in priorities: 83 per cent of our respondents agree that banks now have an opportunity to help customers manage their lives, not just their finances, better.

⁶¹World Retail Banking Report 2016, Capgemini/Efma

⁶²How to flourish in an uncertain future, Deloitte, 2017

Your bank, your money, your life

What might a lifestyle portal look like? In addition to an intuitive user-friendly experience, the lifestyle portal will be highly personalised with a focus on adding value to daily life with five key themes:

One-stop money management:

The aggregation of data from multiple accounts, credit cards and loans will allow banks to create a dashboard so customers have improved visibility of their finances. By partnering with providers of next-generation personal financial management (PFM) tools, banks can help customers take control and make better decisions about their financial wellbeing. These tools have already been developed by FinTech, and forward-thinking banks are already acting as distributors: in Sweden, for example, Nordea, Klarna, Nordnet and SEB have partnered with popular PFM provider Tink to integrate Tink's technology into their mobile banking apps, connecting all of a customer's bank accounts and credit cards in one place and offering money management tools.

Personalised insights that make a difference:

With access to vast reams of customer data, banks will be well placed to deliver proprietary, personalised insights and advice to help customers optimise their finances – whether it's reducing the cost of credit or getting better returns on their savings – and meet their personal goals in life, from buying a house to saving for retirement. Following in the steps of such services already offered by Simple Bank, Monzo and Starling bank, HSBC began testing a platform in October 2017 that lets its customers see all of their accounts, including loans, mortgages and savings, no matter who the provider, on one screen. The bank plans soon to beta test a number of features: showing customers how much disposable money they have before their next payday; categorising and providing insights into spending; offering tips on better money management; and rounding up spending amounts to send the extra to a savings account.

Getting the best deal, every day:

Access to a customer's personal data, including spending habits, personal preferences and energy usage, will enable portal providers to use advanced algorithms and machine learning to constantly check that customers are getting the best value across their commercial relationships, including their energy tariff, insurance policy or even retail loyalty scheme. One survey suggests such services could be mainstream within five years⁶³. Monzo can already direct customers to the best ISA and put your money there for you. Soon it plans to use smart software to help customers identify the best gas and electricity supplier and auto-switch them to the best deal, and in the future could auto-submit expenses to your employer or allow customers to pick personalised mortgage deals based on the transactional data it holds.

Friction-free experiences:

By focusing on the customer's needs, rather than selling them a product, banks have the opportunity to reinvent many of life's big moments – buying a house, starting university or finalising a divorce. Rather than such moments being blighted by stress and inconvenience, there's an opportunity to pull together partners from other industries to create smart solutions and friction-free experiences that add real value to life, when it really counts. Banks could, for example, bring together estate agents, solicitors, mortgage brokers and movers via one interface to deliver a single home-buying service.

⁶³In 2020 Customer Insight: Navigating the New Data Ecosystem – A Report by Market and TCS, May 2016, three-quarters of respondents said they expect intermediary services that automatically select the best products and services based on an individual's personal data to be mainstream within 5 years

Driving convenience and contentment:

The use of banking and non-banking data, including real-time location data, creates opportunities to deliver meaningful insights into customer behaviour and anticipate their needs, be it finding an electric car charging point, recommending restaurants based on your budget and personal tastes or highlighting job openings that match your skills and salary expectations.

Banks that become trend-setters in the development of value-added services, rather than following the herd, will enjoy first-mover advantage, securing access to ever more data and tying up the best-in-class partner companies, enabling them to move further ahead of the pack. By the time the laggards wake up to the possibilities of the lifestyle portal, these frontrunners will already be embedded in the fabric of their customers' daily lives.

Customer demand

Such wide-ranging lifestyle services may not yet exist – but already it seems there's latent demand for them as customers wake up to the potential of mobile apps. Studies suggest 58 per cent of retail customers would move to a mobile-only bank to receive more rewards from their current account, 40 per cent to receive a more personalised service through the app and a third for better budgeting and predictive tools, while 29 per cent would move to access financial services products from third parties through the app that may be better value than those offered by the bank itself⁶⁴.

Our respondents believe these services are most likely to appeal to Millennial customers, which creates an opportunity for banks to engage with this most influential of generations.

Customers are likely to significantly value...	Millennial customers	Customers born before 1982
Alerts when expenditure is excessive in relation to forecast future costs and savings targets	84%	66%
Personalised information to assist in choosing a new home	71%	42%

⁶⁴How to flourish in an uncertain future, Deloitte, 2017

The battle to own the lifestyle portal

Of course, it's not just banks looking to step outside their industry. A wide range of organisations are hoping to offer banking services – and significant numbers of customers may be tempted to let them. Indeed, research suggests almost half of customers with a mobile banking app would trust a digital payments provider to provide a mobile banking interface, 31 per cent would trust an online retailer and 29 per cent a global technology firm⁶⁵ - this covers all the members of GAFA, the companies seen as posing the most potent competitive threat to incumbent banks.

There is some good news, however. While almost two-thirds of our respondents think customers would prefer personalised information to assist in buying a new home to be delivered by one of the tech titans rather than their bank, when it comes to pure financial services they back the bank: almost four out of five believe customers would react better to their bank providing alerts related to expenditure than they would to notifications from GAFA. This could prove a critical advantage in the coming battle to own the customer interface.



The bottomline

87% believe lifestyle management services that stretch beyond the scope of financial services would be effective in increasing customers' propensity to buy banking products

And this is a battle that must be won if banks are to generate sustainable returns in the era of open banking. Research shows that it's distribution and the customer interface that delivers 65 per cent of a bank's profits⁶⁶. In recent years, banks have battled anaemic growth and slim returns but analysis by McKinsey suggests banks that create platforms and extend into non-banking markets could elevate their ROE to about 14 per cent – far above current industry average⁶⁷. Our respondents add credence to this: 87 per cent believe providing lifestyle management services that stretch beyond the scope of financial services would be effective in increasing customers' propensity to buy products from their bank.

And all those value-added services could open up new revenue streams: nearly one in five consumers say they would be willing to pay their banking provider to know them better⁶⁸, while automated financial advice could also generate fee-income⁶⁹.

⁶⁵Deloitte, 2017

⁶⁶Remaking the bank for an ecosystem world, McKinsey, October 2017

⁶⁷<https://www.mckinsey.com/industries/financial-services/our-insights/remaking-the-bank-for-an-ecosystem-world>

⁶⁸Digital Banking Report: the Power of Personalisation

⁶⁹In *The next frontier, the future of automated financial advice in the UK*, Deloitte found up to 15 million British adults would pay for automated advice in at least one of six major financial markets

Flowing with the data torrent

Data, and the ability to mine it for insight, will be key to delivering a best-in-class lifestyle portal that customers can't live without. The good news is there's an ever-expanding data universe to fuel these offers as customer behaviours and actions are captured by IoT devices and customers recognise the value of this data and are willing to trade it for rewards and personalised services.



Almost half of our respondents (48 per cent) expect their organisation to use IoT-derived data to deliver personalised insight within the next three years. But banks will need to tread carefully: in a data-rich world, sometimes less is more and customers deluged with alerts that don't add meaning will soon label them as self-interested marketing and switch off. 96 per cent of our respondents agree that in 10 years' time the threshold for what constitutes good customer communication will be that customers consider the communication to be a service.

This is a high bar and demonstrates that it will not be access to data, but analytics capability, that will determine success. Customers don't want a bank to show off how much they understand them; that's now a hygiene factor. They want a bank that can take their data and show them how to make life better, and that provides the tools to make that happen, starting now.

This remains a stretch goal for many banks: one survey found only 27 per cent of senior banking executives felt their organisation was making

extensive use of even the most basic form of analytics – descriptive analytics, used to understand what customers are doing – and only 17 per cent were using predictive analytics, a powerful tool that helps anticipate customer behaviours and transform the user experience⁷⁰.

In this banks are not alone: many organisations across a wide range of industries report poor returns on their investments in customer analytics because of poor data quality, the failure to align analytics projects with business outcomes and operational bottlenecks that hamper efforts to convert insights into action⁷¹.

Unlike other organisations, however, banks face a tight deadline to get their systems and operations ready for the open banking revolution. In the near future, customers that want to manage their finances will voice activate not a banking app but rather a single lifestyle portal. As yet, it remains to be seen whether this gateway, and all the tantalising business possibilities contained therein, is owned by a bank – or will GAFA get there first?

⁷⁰the Role of Analytics in the New Banking Age, Earnix/Marketforce, 2017

⁷¹In *The Future of Customer Analytics*, Sopra Steria/Marketforce found just 38% of customer-facing organisations felt customer analytics had yielded significant bottom-line benefits for their organisation and just one-third reported a significant improvement in the customer experience

Smart Communications Viewpoint

Today's consumers demand much more from the companies with which they do business. They want to be valued as an individual and have two-way conversations that consider their specific needs and preferences. And they want communications from these companies to feel like an extension of the service—not just a transaction or a marketing message. In fact, 92 per cent of respondents in this report agreed that in 10 years' time, the threshold for what constitutes good direct marketing will be that customers consider the communication to be a service.

The good news is, with more data available now than ever before, it is possible for companies to deliver highly tailored and relevant communications. At the same time, this massive amount of data has led to tighter regulatory controls and privacy laws that must also be considered. Banks are at the forefront of this data opportunity, and are also among the industries that feel this challenge most acutely. For example, savvy consumers today expect banks to leverage their tremendous amount of data to help them better manage their finances via alerts and tips – not just through monthly statements. This is good news for banks as well, with 77 per cent of respondents believing that money-saving tips can increase customer propensity to purchase.

To help retail banks achieve these two-way relationships without sacrificing security or compliance, enterprises are increasingly relying on Customer Communications Management systems to deliver the most personalised messages possible via the most appropriate channel. And with no time to waste, many are turning to cloud-based systems, which can be implemented quickly and easily, and updated frequently as new functionality is available. And the results are clear. One of the largest financial services corporations in the world was able to save \$100 million by taking advantage of our solution to reduce complexity while simultaneously reaching customers on new channels and with more personalisation than ever before.

For more information about how Smart Communications is helping companies scale more meaningful customer conversations visit www.smartcommunications.com.



Scale the Conversation™

Smart Communications™ helps the world's largest enterprises simplify their customer and business communications – while making those communications do even more. In 2004, we pioneered the new generation of CCM solutions, and today we're still leading this industry as the only cloud/hybrid cloud solution in the Gartner leaders' quadrant. Smart Communications customers rely on our team for the undivided attention of the only independent company 100% focused on enterprise CCM. No one does more to simplify template management and put so much control in the hands of the user. That's why more than 300 global brands – many in the world's most highly regulated industries – rely on us to scale the conversation. Smart Communications is headquartered in London and serves its customers from offices located in North America, Europe, and Asia Pacific. The company offers a range of solutions including SmartCOMM™, SmartDX™, SmartCORR™ for Salesforce and SmartCaaS™ for Partners.

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